



NSTAR Electric & Gas Corporation  
One NSTAR Way, Westwood, Massachusetts 02090-9230

October 6, 2003

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: D.T.E. 03-85 – KeySpan Energy Delivery New England

Dear Secretary Cottrell:

NSTAR Gas Company ("NSTAR Gas" or the "Company") would like to take this opportunity to comment on the gas-procurement proposal submitted to the Department of Telecommunications and Energy (the "Department") on August 25, 2003 by KeySpan Energy Delivery New England ("KeySpan"). In its August 25 letter to the Department, KeySpan indicated that, as of November 1, 2003, it would begin purchasing 1/12<sup>th</sup> of the gas supplies necessary to meet customer requirements in the 2004/05 peak season each month in the 12-month period prior to November 1, 2004. Through this process, KeySpan would have purchased up to two thirds of its peak season supplies by the start of the heating season using a "dollar cost averaging" approach. As discussed below, NSTAR Gas supports the Department's consideration of the KeySpan proposal because this type of purchasing approach would have the effect of mitigating gas-price volatility for customers.

Like most natural gas local distribution companies, NSTAR Gas purchases a significant amount of its winter supply based on first-of-the-month pricing during the winter months when prices can be most susceptible to a high degree of volatility. A procurement strategy that includes making purchases on a pre-determined, formulaic basis across a twelve-month period would mitigate price volatility to customers by eliminating some (but not all) of the variability that can affect gas prices in a short-run period during the year. The Company recognizes that this type of purchasing strategy may result in higher or lower costs during a particular winter season, as compared to the Company's current gas procurement plan. However, the objective of a program to make additional pre-purchases of gas supply at fixed prices prior to a winter season is not to reduce costs, *per se*, but rather to provide customer benefits by creating a level of price stability during the winter heating season.

NSTAR Gas is currently evaluating its gas-purchasing options for the coming and future heating seasons. For this reason, NSTAR Gas would encourage the Department to continue to allow a level of flexibility to local gas distribution companies to structure purchasing programs to meet their specific customer and resource-portfolio requirements. If the Department agrees that additional price stability is desirable, the Company is prepared to file for approval a program that

would mitigate volatility involving forward, fixed price gas purchases.

Should you have questions regarding these comments, please feel free to contact me. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "James Daly", with a long horizontal flourish extending to the right.

James Daly,  
Director Electric & Gas Supply

cc: Barbara Stamos, NSTAR Gas Company  
Tam Ly, NSTAR Gas Company  
Patricia Crowe, KeySpan Energy Delivery New England  
George Yiankos, Director, Gas Division  
Kevin Brannelly, Director, Rates & Revenue Requirements Division  
Joseph Rogers, Chief, Utilities Division, Office of the Attorney General  
Robert Sydney, General Counsel, Division of Energy Resources  
Charles Harak, Esq., National Consumer Law Center